December 1949

FISCAL

FINAL REPORT OF SURVEY UNIT #2

TO THE

COMMISSION ON STATE GOVERNMENT ORGANIZATION

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CONTENTS

I. FINDINGS ON EXISTING FISCAL STRUCTURE AND METHODS

The fiscal structure of the Connecticut state government has not been thoroughly overhauled and modernized at any time. It is today a curious mixture of antique and modern agencies and devices. Parts of it -- the Comptroller's and the Treasurer's offices -- date back to colonial days when the functions of the state government were quite limited in scope and the total requirements were only a few thousands of dollars a year. In those days the administration of the state did not involve management problems calling for the exercise of responsible and continuous control over the state's finances, hence there was no special need for an integrated fiscal system.

As the functions of the state government expanded in scope and volume around the turn of the present century, their need for revenues increased. Soon this need became important enough to require the establishment of a Tax Department to look after the assessment and collection of the state's major taxes, work that had previously been taken care of largely by the constitutional officers. Then as the administrative tasks of the state grew in volume and complexity the resulting fiscal problems were met not by centering authority and responsibility in the Governor, but by setting up such ineffective agencies as the Board of Control and the Board of Finance, and later their successor, -- the Board of Finance and Control. The last mentioned board was in turn displaced in 1937 by the present Department of Finance and Control. Some other fiscal agencies have since been added, notably the Finance Advisory Committee. This committee is concerned mainly with transferring appropriated sums at the request of the spending agencies and with authorizing additional appropriations in the interim period between the regular sessions of the General Assembly.

The resulting fiscal organization of the state government is now quite complex and so constructed as to be without responsible leadership and direction. Its several parts often work at cross purposes; its operations overlap and duplicate each other and are both cumbersome and expensive; its controls are poor and its basic reports are tardy and sometimes unreliable. Not only are the fiscal functions of the state improperly arranged and distributed in the present pattern, but they are often mere adjuncts to wholly unrelated operating services, as is the case in the present Comptroller's office. The general effect of the whole fiscal administration, as at present structurally constituted, is to defeat legislative intent and purpose, and to confuse the Governor's authority and detract from his responsibility and initiative in directing the state's business.

A brief review of the functions and methods of the various fiscal departments, offices and agencies of the state government (see Chart I) will bear out the foregoing general criticisms of the present system, or perhaps more accurately stated -- the present lack of system.

The Comptroller's Office

The Comptroller (originally appointed by the General Assembly; now elected for the same term as the Governor) is the key fiscal and accounting officer of the state government. His principal constitutional duties are to control the receipt and expenditure of state funds and to maintain the general accounts. At the same time, he is given numerous statutory duties, some of which from the standpoint of volume and political importance completely overshadow his accounting and control functions. Many of these statutory duties are of an operating nature and as such are incompatible with his functions as Comptroller. They involve the expenditure of large sums of state money, admittedly with extensive patronage possibilities. In carrying on his assigned work he is called upon to authorize as administrative officer, many expenditure outlays which he later must approve as comptroller. Hence he is in effect his own controller for the requirements of the operating functions which he manages.

The wide variety and incompatibility of the Comptroller's present functions may be shown by means of a brief summary of his more important functions classified under the headings of fiscal and non-fiscal. The principal fiscal duties of the Comptroller are as follows:

1. To maintain a register of the warrants drawn on the Treasurer (constitutional).

2. To adjust and settle all public accounts and demands, except grants and orders of the General Assembly (constitutional).

3. To prescribe the mode of keeping and rendering all public accounts (constitutional).

4. To act ex officio as one of the auditors of the Treasurer's accounts (constitutional).

5. To keep appropriation accounts and to see that no payments are made by the Treasurer except when appropriations therefor are available (statutory).

6. To require accounting reports and related information from all state departments and agencies (statutory).

7. To report annually to the Governor on the condition of the state's finances (statutory).

The important non-fiscal duties of the Comptroller are as follows:

1. To act with either the Secretary or the Treasurer, or both, in canvassing and submitting to the General Assembly the return of votes for state senators, Governor, Lieutenant Governor, Treasurer, and Secretary (constitutional).

2. To supervise the planning and construction of buildings and other projects, mainly at state institutions, through the Real Assets Division (statutory).

3. To discharge the duties of custodian of the state capitol and other state buildings and properties (statutory).

4. To employ stenographic help and to buy supplies and printing for the General Assembly (statutory).

5. To purchase office equipment for the various state departments and agencies (statutory).

6. To arrange for and purchase from private companies fire, liability, fidelity, and other insurance for the state government (statutory).

7. To operate the state employees' retirement system and the Connecticut municipal employees' system (statutory).

8. To arrange for the printing and circulation of public documents (statutory).

It should be observed that the Comptroller's accounting work is greatly hampered not only by an outmoded system, but also by being cramped into unsuited and disconnected quarters in the state Capitol building. Some phases of the work are conducted in fenced-off hallway space on the ground floor, while others are carried on in the attic space on the top floor. The space arrangement is about as bad as it could possibly be for the conduct of the operations it is intended to accommodate. Quarters of such a character result in lost motion, unavoidable delays, and general inefficiency in the handling of both personnel and accounting machines.

The State Treasurer

The treasurer (elected for the same term as the Governor) is by constitutional provision charged with the receipt, custody and disbursement of all state funds. In the disbursement of these funds, he must have the approval of the Comptroller.

Most of the Treasurer's duties, in contrast with those of the Comptroller, are in keeping with the primary objectives of his office. Aside from the vote canvassing which he is required to do under constitutional mandate in conjunction with the Comptroller, he does not engage in a number of unrelated functions. It is true that he is responsible for some minor things under statutory provisions such as licensing itinerant vendors and collecting delinquent taxes on gasoline. His largest border-line assignment in recent years was the administration of the state bonus for the Veterans of World War II. This assignment was given to him by statute and has now been practically completed. It necessitated setting up in the Treasury a Veterans' Bonus Division staffed at one time by about 140 persons. The Treasurer was assisted in this work by the Veterans' Bonus Commission, consisting of himself, the Governor, and the Comptroller.

There is at present considerable duplication of accounting records as between the offices of the Treasurer and the Comptroller, which might be eliminated by the installation of a modern accounting system in both offices. The Treasurer is custodian of the deeds to all state properties, which need to be systematically classified and entered in a record for ready reference. In the investment of

trust and other funds, the Treasurer is advised by an Investment Committee, consisting of two persons appointed by the Governor with the approval of the Senate and The Commissioner of Finance and Control ex officio. The establishment of this agency was recommended by the Cross Commission.

Department of Finance and Control

The Department of Finance and Control was created in 1937, following in part the recommendations of the Cross Commission's report. It is headed by the Commissioner of Finance and Control appointed by the Governor with the Senate's approval for a four-year term (the Governor's term being two years until January, 1951, when it will become four years). Aside from the commissioner's office, the work of the department is divided among three divisions: budget, purchasing and personnel. The head of each division is regarded as being in the permanent classified service of the state. In connection with the Personnel Division, there are two boards, a Personnel Appeal Board and an Advisory Personnel Committee. The former consists of three members appointed by the Governor; the latter of two department heads, two employees in the classified service, and one institution head named by the Governor, plus the three members of the Personnel Appeal Board.

It appears that the Cross Commission in recommending the establishment of the present Department of Finance and Control intended to set up a central fiscal establishment operating under the general direction of the Governor. This design was partly defeated in the outset by not bringing into the new department the fiscal functions of the Comptroller and the Treasurer. Then the term of office of the Commissioner of Finance and Control was fixed at four years, when the Governor's term was only two years. The Cross Commission ruled out the idea of having the Commissioner serve at the pleasure of the Governor, thus putting continuity in office ahead of responsibility. This made it possible to have a situation like the present one in which a Democratic Governor has as his chief fiscal officer a holdover Republican Commissioner. Then, in 1943, the responsibility of the Governor for the fiscal operations of the state government was further dissipated by the creation of the Finance Advisory Committee. This Committee is in a sense a reversion to the Old Board of Finance and Control set up in 1927, but with powers over appropriations extending into the legislative field.

During the war period and the postwar years, when the state departments and agencies were rapidly expanding, the Commissioner of Finance and Control neglected to exercise what are perhaps the most sweeping powers granted to him by the statute creating his department. These powers relate to administrative management and enable the Commissioner and his staff to investigate the internal organization and operation of any state agency and to determine "the character, amount, quality and cost of the service rendered." During the past decade the Commissioner is reported to have looked into only one department of the state government on any such basis -- that was the department of Motor Vehicles. For that investigation he appears to have had an improvised staff. He has not developed organization and management specialists as a part of his regular staff.

The fiscal authority of the Commissioner of Finance and Control stems mainly from his supervision over the budgeting, personnel and purchasing of the administrative departments and agencies. This supervision is exercised through his three divisions, but always under his close oversight and in accordance with his ideas of what is good fiscal practice. He does not consider that he is in the position of executing fiscal policies for the Governor, except perhaps in so far as the Governor's ideas are in line with his own. He stands on his own statutory prerogatives which are sometimes construed to warrant his outright opposition to the Governor's plans. Although he may not on occasion openly oppose the Governor, he nevertheless can thwart the Governor's efforts by indirection. He has been observed to operate between the Governor and the General Assembly in such a way as to increase greatly the difficulties of legislative reception for the Governor's plans. This was notably apparent in the case of Governor Bowles' budget plans.

The work of each of the three divisions of the Department of Finance and Control has fallen into a set pattern and has become merely a routine. The new methods and techniques in budgeting, personnel supervision, and purchasing developed during the past decade have not been studied, adapted and applied as they might have been. Much needed ingenuity and progressiveness appear to be lacking. The result is that with the uncertain postwar conditions coupled with the pressure of expanding state services, the old procedures are rapidly becoming inadequate and are more and more necessitating resort to stop-gap methods. The state's fiscal administration is rapidly approaching the rather critical point at which it is largely a matter of improvising from day to day to meet a series of developing emergencies. Budgeting under such an approach becomes a very unstable process; estimates are unreliable, expenditure limits cannot be maintained, and the government's fiscal condition is in a constant state of uncertainty.

The Personnel Division and the Purchasing Division have been studied and reported on under other assigments. For this report, a few observations may be made on the work of the Budget Division. Aside from the director, there are an assistant director (who is also a budget examiner) and four budget examiners. The state departments and agencies are parceled out and definitely assigned to the assistant and the four examiners. Each examiner is responsible for reviewing the budget estimates of his agencies and for making recommendations thereon to the director. After the budget has been prepared and the appropriations have been authorized by the General Assembly, it is again the duty of the examiners to see their agencies submit the required quarterly allotments and to recommend at the beginning of each quarter the amounts of the allotments to be approved for that quarterly period. These allotments, when approved, are sent to the Comptroller for the purpose of appropriation control. During the quarter any adjustments or transfers in the appropriations are reviewed by the examiners and necessary changes are reported to the director and the Commissioner of Finance and Control, who determine the items that need the approval of the Governor and the Finance Advisory Committee.

In the interim between the periods of budget preparation the examiners are supposed to be busy studying the operations of their assigned departments and agencies so as to be in a position to pass intelligently on all expenditure requirements. There is, however, little factual basis of judgment; adequate costing and performance data are generally lacking, except perhaps in one or two departments. Services and other acquisitions are stressed in the budget instead of programs of work or objectives of operation. The budget examiners are therefore concerned primarily with the means rather than the end results; practically all their decisions relate to the things to be acquired by the departments and agencies rather than the work to be done. Departmental policies, plans and work programs are secondary matters, if indeed they are even considered in making up and executing the budget.

The Tax Department

The Tax Department, headed by the Tax Commissioner, dates back to 1901. Some additional tax functions were transferred to it in 1937 and 1939 in accordance with the recommendations of the Cross Commission. Then with the adoption of the sales and use tax in 1947, the personnel of the department was practically doubled.

The Tax Department now administers most of the important taxes of the state government with the exception of the tax on gasoline and the tax on out-of-state insurance companies. The Cross Commission recommended that both of these taxes should be under the Tax Department. No action was taken on the transfer of the gasoline tax. In 1937, the tax on out-of-state insurance companies was put under the Tax Department, but two years later it was transferred back to the Insurance Department on account of the difficulties of administration apart from the regulatory features of the companies.

The Tax Commissioner is appointed by the Governor with the Senate's approval for a term of four years. The Commissioner names the Deputy Commissioner. The statutory provisions indicate that the organization and administration of the department are entirely in the hands of the Commissioner. Although the several divisions of the department are not recognized as administrative entities in the law, they have nevertheless become so established in practice and each one now jealously guards its tax functions and personnel. The result is that the Tax Department does not operate as an integrated unit, but as five or six separate divisions, each division having its own central services, such as supplies, mechanical equipment and files. This means that there is considerable duplication of work and records. It also means that as many as five reports may be required annually of some taxpayers when it should be possible to administer their taxes satisfactorily with one comprehensive report. Then, too, some business concerns may be visited four or five times a year by different departmental auditors assigned to check their books. All of this adds up to extra work and bother for the taxpayers and increased expenses for tax administration.

The Tax Department, aside from the office of the Commissioner, consists of the following divisions: (1) inheritance tax, (2) corporation, (3) excise, (4) sales and use tax, (5) municipal,

and (6) research. The last-mentioned division is little more than an office for the research director and an assistant, with files, periodicals and other working materials. The other five divisions are headed by directors, there being also an assistant director in the case of the Sales and Use Tax Division. All of these officers are understood to be in the permanent service of the state.

The Inheritance Tax Division administers the inheritance or succession tax, the estate tax, the estate penalty tax, and the four mills tax on certain investments. With the possible exception of the last-mentioned tax, these taxes constitute a homogeneous group for purposes of administration. They differ from the other taxes of the department in that they involve the cooperation of certain town officials in the process of their administration. They are also of such a nature that the division must place major emphasis on the legal work in making determinations. The accounting records of the division are manually kept at the present time for personal reasons, although they should be easily adaptable to machining and should follow a uniform system for the department as a whole.

The Corporation Division administers and collects the corporation business tax, and the taxes imposed on domestic insurance companies and on public service corporations. The division maintains its own examining staff, corporation records, and accounting system independent of the other divisions of the department. About 17,000 corporation returns are handled annually.

The Excise Division administers the tax on unincorporated mercantile and manufacturing business, the cigarette tax, the tax on alcoholic beverages, and the tax on places of amusement based on seating capacity. Each of these taxes represents a section in the organizational set-up of the division. The cigarette tax and the alcoholic beverage tax are, however, combined for purposes of administration, having the same supervisor and the same set of examiners. This is likewise true of the unincorporated business tax and the amusement tax. The examiners are in turn enumerators, office auditors, investigators, and field auditors as required. There are about 40,000 unincorporated businesses that report annually to the division. These businesses plus the incorporated concerns make up the great bulk of the businesses reporting on a quarterly basis to the Sales and Use Tax Division.

The Sales and Use Tax Division was established in July, 1947, following the passage of the act authorizing the levy of a "temporary" sales and use tax for the state. The administrative procedure by the division was largely copied from that in vogue in California. The division has come to have six well-defined sections dealing with receiving and processing the returns, with tabulating, with delinquency and adjustment, field audit, legal problems and business management. The business management section conducts for the division many elements of over-all departmental services, such as budgeting, purchasing, personnel supervision, mail, files, stock room, clerical pool, and so on. Apparently, efforts have been

made to put the administration of the division on a self-contained basis. To this end, the division has its own well-equipped tabulating section, and its own team of office and field auditors, and its own legal talent. The division operates on the basis of quarterly returns from about 55,000 taxpayers. The great bulk of these taxpayers also make annual returns either to the Corporation Division or to the Excise Division of the Tax Department. A study of the administrative requirements of the three divisions, looking forward to a consolidation or reduction in the number of returns from each taxpayer, would seem to be very much needed. At least there is the possibility of consolidating the quarterly returns for sales tax purposes into an annual return with estimates and payments on a quarterly basis as in the case of the federal withholding tax on salaries and wages. It is also possible to stagger the quarterly payments so as to have them coming in every month in about equal volume and thus obviate the peak work loads for the division, and at the same time afford a constant flow of revenue into the state treasury.

The municipal division has as its main functions the conduct and supervision of annual audits of the towns and other political sub-divisions, the compilation of several statistical documents with respect to municipal finances, and the rendering of advisory service to the towns on tax assessment and collection, and on fiscal management. The accounting staff of the division gives approximately 45 per cent of its time to the annual audits of 47 towns, 5 boroughs, and 12 other political subdivisions. It spends another 35 per cent of its time in reviewing the annual audits conducted by private accountants in the other 121 municipalities and their subdivisions. The remaining 20 per cent of the staff's time is devoted to compiling statistical materials and to carrying out special assignments. The result is that the statistical materials are more or less neglected, and those that appear are so long overdue as to lose much of their immediate value. The advisory service to the towns is limited to what the director of the division can provide along with his other duties.

Finance Advisory Committee

The Finance Advisory Committee, established in 1943, is composed of the Governor, Lieutenant Governor, Treasurer, Comptroller, and two senators and three representatives from the joint appropriations committee of the General Assembly. Not more than three of the legislative members can be from the same political party. The Committee meets regularly on the first Wednesday in each month, and at such other times as the Governor may designate. The Commissioner of Finance and Control serves as clerk of the Committee and the Budget Director as assistant clerk. The agenda for the meetings of the Committee are prepared in the office of the Commissioner of Finance and Control. All items on the agenda are cleared by the Commissioner, who indicates his approval or disapproval. Very few items reach the agenda with his disapproval, and still fewer of them adopted by the Committee.

The Committee has authority to transfer appropriations within departments and other spending agencies above the $1,000 limit set on the Governor's power of transfer. The Committee can also make out-and-out appropriations for tax refunds and for expenditures from certain special funds, such as the highway fund.

An increasing number of transactions come before the Committee each year. During the fiscal year 1947-48 there were about 250 transactions, and the next fiscal year about 270. These transactions involved transfers and additional appropriations of from $12,000,000 to $15,000,000 each year, enough to change very materially the budget plan and to defeat the present scheme of appropriations. In July and August, 1949, highway fund resources alone were authorized for expenditure by the Committee to the total of more than $8,500,000.

The actions of the Committee are taken in camera. The Committee is so constituted that neither the Governor nor the General Assembly can be held responsible for its decisions. The Auditors of Public Accounts have protested on recent occasions that the Committee has repeatedly thwarted the intentions of the General Assembly by switching appropriations around for certain of the operating departments and agencies. They have cited instances where moneys were spent with the approval of the Committee during the biennium for purposes which had previously been turned down by the General Assembly.

Teachers' Retirement Board

The Teachers' Retirement Board is composed of the Insurance Commissioner, Bank Commissioner, Commissioner of Education and two members elected for four-year terms by the members of the Teachers' Retirement Association. With the aid of a staff of about 15 persons, the Board manages the teachers' retirement system. More than 11,000 teachers throughout the state are covered by this system. The retirements are paid from two funds, an annuity fund (contributed by the teachers) and a pension fund (set up by the state government). These funds are in the custody of the State Treasurer.

The work of the Teachers' Retirement Board is quite similar to that of the State Employees' Retirement Commission (administered by the Comptroller). Indeed, the teachers in state institutions are permitted to belong to either the teachers' retirement or the state employees' retirement. This suggests that it is quite feasible to administer the two retirement systems jointly by using the same staff and record-keeping machines.

II SUGGESTED FISCAL ORGANIZATION AND ADMINISTRATION

Some Basic Considerations and Changes

1. The fiscal functions are in the main necessary adjuncts to the management of state government. The Governor should therefore have them under his direct supervision, where they should be set up in systematic relationship to the whole state administration. These functions should not be scattered among independent officers and

irresponsible boards as they are now. The present fiscal arrangement tends to thwart the powers and responsibilities of both the Governor and the General Assembly.

2. In the reorganization of the fiscal functions under the Governor's direction, the main problem is not entirely one of departmentalization -- that is, of setting up a unified department of finance -- but it is rather one of proper distribution of the fiscal functions to what may be called the three levels of modern state administration. These levels may be designated as (1) the policy and management level immediately associated with the Governor, (2) the central services level which consists of offices or agencies serving all the operating departments, and (3) the operating departmental level where the essential processes of the government are performed.

Some of the fiscal functions, like budgeting (which is essentially concerned with the development of policy), belong in the first level; other fiscal functions, like centralized purchasing and general accounting (which are in the nature of general services), belong in the second level; but certain phases of budgeting, purchasing and accounting are required in the third level under the operating departments. Indeed, the basic data for fiscal policy and control must largely be developed at the operating level, although assembled and interpreted at the policy level. Hence the character and application of the fiscal phases at the operating level largely determine the effectiveness of the fiscal operations at the other two levels. It is a mistaken idea to think that financial administration can be successfully imposed from the top down; the top policy and management are only as sound as the operational processes, controls, and informational sources. If the departments at the operational level carry on by hunches and guesswork, then the top management must do the same thing, since it necessarily lacks the essential facts upon which to act.

3. It is necessary from the standpoint of effective financial administration to have a closely integrated series of operating departments. Nine or ten large operating departments would seem to be the proper number to aim at for Connecticut. Then each department could have a well-organized finance division to take care of its budgeting, accounting, costing, and related functions -- matters which should properly be done at the departmental level. Fiscal data and experience gathered at this level would then mean something at the policy and management level.

4. The relationship of the Governor to the General Assembly on fiscal matters, particularly budget planning and execution, needs to be redefined So great is the confusion now that the Governor's budgetary proposals may be largely disregarded by the General Assembly, and there is no legislative record either explaining or justifying such action. Legislative customs and usages with respect to money bills were not revised with the adoption of the Governor's budget. The result is that this document has no preferred standing in the General Assembly any more than the usual governor's message.

The Governor's budget is now without any priority in the legislative review and action on money matters. It should be accorded first place in legislative consideration of the revenue and expenditure requirements of the state government, otherwise it is useless to set up an integrated administration and to prepare a Governor's budget. Full recognition of the Governor's right to prepare a financial plan for the state government means a revision of the present rules and procedures of the General Assembly and a complete change in the political attitude of that body. One might say, it requires even more than that, a complete change in the political climate in which the General Assembly now operates.

5. As a safeguard against the abuse of gubernatorial power and authority under an integrated and responsible administrative structure, the General Assembly should develop and use to the fullest extent the function of post-audit. As now set up and operated the post-audit agency is an orphan in the state organization; it is tolerated by the administration and practically ignored by the legislature.

The Auditors of Public Accounts should discontinue their pre-audit of State payrolls, and should perform continuous post-audits of all accounts and financial records in the administration, extending their examinations to organizational and operational methods and practices. They should report to a small joint committee on public accounts of the General Assembly, which should meet quarterly between legislative sessions. The staff of the Auditors should serve the General Assembly in making legislative investigations for either house or for any of the committees. The Auditors should certify to all important financial statements issued by the central accounting unit of the administration.

Proposed Functional and STructural Changes

1. It is proposed to assign budgeting to the top policy staff of the Governor for the development of fiscal policies and the preparation of the budget (see Chart II). It is proposed to place the execution of the budget largely at the departmental level with frequent reports on budget operations to the top management level.

These changes would mean removing the budget function from the present Department of Finance and Control. Presumably, the other functions of this department, that is, purchasing and personnel, would be transferred to the central services of the proposed organizational set-up. The department of Finance and Control would therefore be abolished. The Finance Advisory Committee would also be abolished, ~~and~~ since it would not be required under an integrated administration and a new budget approach.

2. It is proposed to set up an accounting and control unit as the finance group of the central services (see chart II) under a controller or an accountant with C.P.A. qualifications. This officer would be appointed by the Governor and would have no other duties than those of central accounting and general financial reporting.

This change would mean abolishing the office of elective Comptroller now written in the constitution, and distributing the Comptroller's fiscal and non-fiscal functions to appropriate units in the new administrative organization.

3. It is proposed to set up a treasury unit in the finance group of the central services (see Chart II) under a treasurer with banking and investing experience. This officer would be named by the Governor. He would have charge of the receipt, custody and disbursement of all state funds. He would also administer the retirement systems for state employees, municipal employees, and state teachers.

This change would require the office of elective Treasurer now in the Constitution to be abolished. The statutory State employees' Retirement Commission and the Teachers' Retirement Board would also be abolished. The investment committee as now constituted would no longer be needed.

4. It is proposed to make the present Tax Department over into a revenue unit in the finance group of the central services (see Chart II) under an experienced director appointed by the Governor. This unit would represent a complete rearrangement of the present tax functions to facilitate better administration. It should be advantageous to administer all business taxes as a group, instead of having them split between three divisions as at present. This consolidation would permit the pooling of auditors now assigned to the three separate divisions, reduce or eliminate multiple inspections of the same businesses, cut down on multiple forms filed by the same taxpayers, and facilitate the use of office files, lists of concerns, mechanical equipment, and clerical and stenographic forces. It is proposed to combine the research and municipal divisions into a single group, eliminating the audits of local governments now made directly by the municipal division and concentrating on municipal statistics and advisory services. The inheritance tax division, because of the peculiar problems involved, would remain as an administrative group. It is proposed to transfer the gasoline tax from the Motor Vehicles Department to the revenue unit to be administered along with other similar taxes.

5. Following the constitutional changes indicated above, it would be both possible and desirable to set up an integrated department of finance, headed by a commissioner appointed by the Governor. The commissioner would exercise general supervision over the work of the department. Such a department would have three major subdivisions; revenue, treasury and general accounting. A forth subdivision might be motor vehicles. Departmental integration would make it possible to combine and reduce the "housekeeping" facilities of the separate units, to substitute treasury cashiers for those now in the tax gathering units, and to minimize the necessary fiscal and accounting routines.

6. Probably half million dollars could be saved annually in premiums now paid to private insurance companies by the establishment of a system of self-insurance for the state government, covering fire, liability, explosion, machinery, fidelity, theft, and other insurance.

The bulk of the present insurance, with total coverage in the neighborhood of $100,000,000, is administered by the Comptroller's office. One gathers from inside circles that the parceling out of the insurance policies is a political matter which, when properly handled produces substantial contributions to the party exchequer. According to the findings of the auditors of Public accounts, in their report of May 18, 1947, on the general insurance coverage and fidelity bonds in the Comptroller's Office, the present insurance is being poorly handled from an administrative standpoint, and the policies in force are not always the ones that are most advantageous to the state.

If the premiums now paid out annually were set aside in a state insurance fund for a period of five years, the accumulation in the fund -- some $2,500,000 -- would be large enough to protect the state government against all insurable contingencies for an indefinite number of years. This would seem to be clearly indicated by the past experience of the state with insurable losses, which have been relatively small during the last ten or fifteen years.

Improvements in State Budgeting

1. The state budget is now presented on an organization unit and object basis. The appropriations follow the same scheme. Both budgetary and accounting controls are set on objects of expenditure. Data with respect to work programs, plans, operations, and results are quite meager; and the present approach to budgeting does not require or even encourage the development of such data. Those departments, notably highways and education, which have recently stressed programming in their work have found it necessary to make their summary reports on two bases, one on an object basis for the Budget Division and the other on an activity basis for the purposes of their own administration.

The state budget should be presented on a program or performance basis. It would then show the programs or projects carried on by each department or agency as the primary breakdown. These programs or projects would be translated into quantities, unit costs, and dollar totals. Attention would thus be focussed on the general character and relative importance of the work to be done or the service to be rendered rather than on the things to be acquired, such as personal services, contractual services, supplies, and materials, and equipment. Administrative officers generally think of their work in terms of programs, plans, objectives, accomplishments, and results. A budget set up on the same basis emphasizes policy matters and management problems, and as a document it is much more understandable from the standpoint of legislative and popular appraisal.

2. The appropriation structure should follow the program budget, instead of remaining on the object basis as it is now. Appropriations should be made to major programs or activities under each department or agency rather than to classes of objects to be acquired. This arrangement would permit greater flexibility in spending; it would reduce to a minimum the necessity for transfers during the fiscal year; and it would enable the top management to set controls on the really significant elements of state administration.

3. Comprehensiveness of the budget plan should be stressed. Very little effort was made in this direction until Governor Bowles' budget was being prepared for the 1949 session of the General Assembly. The putting together of this budget was handicapped by poor and inadequate information and by the reluctance of Budget Division to depart from its established routine and method of presentation. The capital program of the state needs to be carefully developed through broad planning and integration of projects. The requirements for the current part of this program should then find a definite place in the budget. All state funds and all income should be included in the budget. In short, the budget should present a complete picture of all the financial requirements of the state government.

4. Special funds, which in most cases are dedicated moneys segregated from the general fund, have increased at an alarming rate in recent years. There are now over 100 of these funds, which in the aggregate amount to almost as much as the general fund. Special funds tend to complicate the problems of both budgeting and they tie the hands of the General Assembly in making appropriations. They increase the difficulties of currently financing the requirements of the state government, since the moneys tied up in numerous fund balances usually lack fluidity.

The creation of special funds in the future should be severly restricted, most of the existing funds should be abolished and their balances consolidated with that of the general fund. Several other states have found it advisable to take this course.

5. More attention should be given to revenue estimates. The revenue side of the budget has been exceedingly poor. The estimates it contained have been based largely on personal observations and hunches rather than on a careful analysis of business and economic trends. An examination of the Budget Director's report on prospective revenues for the current biennium which was made to Governor Bowles on August 26, 1949, bears out the foregoing statement. And the subsequent exchange of letters between the Governor and the Budget Director on September 13, 1949, removes any inkling of doubt one may have as to the superficial basis of present revenue estimating.

6. Under a budget system in which the General Assembly is free to appropriate more than the Governor recommends in his budget, there is need for the preparation and issuance of a budget review after legislative adjournment. Such a statement would summarize briefly the appropriations authorized by the General Assembly as compared with those recommended by the Governor. It would also exhibit a revised estimate of revenues, and indicate the condition of the budgeted funds at the end of the period. A statement of this kind was requested by Governor Bowles on August 25, 1949, but the preparation of it was revused by the Commissioner of Finance and Control. Such a statement is needed for the purposesof current executive planning, and is interesting and instructive from the standpoint of public information.

7. The growing complexity of the state's services and the large volume of spending which is now required to maintain these services necessitate annual instead of biennial budgeting. In the interest of more accurate and effeditive budgeting, it is suggested that constitutional provision should be made for a short session of the General Assembly in the even-numbered years. This session would be devoted entirely to the budget and related matters and should not take more than a month, meeting about April, when the budget would be presented by the Governor. Appropriations could then be made on an annual basis and any necessary carry-overs reappropriated. Several million dollars of appropriations are now made on a biennial basis of "continuing" basis. Since these appropriations may fall in either of two years or may be spread over a longer period, it is not possible to know definitely the expenditures authorizations applicable to any one fiscal year.

The time of submitting the budget to the General Assembly should be moved ahead to March or April at the regular sessions in the odd-numbered years. The nearer the budget is prepared to the beginning of the fiscal year to be financed the more accurate the estimates are likely to be. Besides, a new Governor coming into office would have more time to get acquainted with the needs of the state government and to get his policies whipped into shape for presentation in the budget. It is expecting a lot of a new Governor to require him by statute to get his budget into the General Assembly within a month after he takes office. While the job may be do ne, as Governor Bowles demonstrated, it involves long hours of overtime on the part of the Governor and his advisors and assistants

8. When the General Assembly has unlimited power to appropriate state funds, it has been deemed advantageous from a budgetary standpoint to give the Governor the item veto. The Governor of Connecticut now exercises this veto power by constitutional grant approved by the voters in 1924. Under the old form of detailed appropriations are lumped together it becomes less useable as a device for keeping legislative authorizations within budget limits. When the present appropriation structure is brought in line with the proposed program budget, it would be advisable to extend the Governor's veto power to include the reduction as well as the elimination of appropriation items.

9. In the execution of the budget, the controls used at present are weak and often ineffective. These controls are exercised by the central fiscal agencies, -- the Department of Finance and Control and the Comptroller's office, -- and relatively little responsibility is now put upon the operating departments and agencies. The quarterly allotment procedure for controlling the rate and timing of expenditures from appropriations is administered by the Budget Division. When the allotments have been determined on the basis of schedules submitted by the departments and agencies, the Budget Division sends them at the beginning of each quarter to the Comptroller to be set up in his appropriation accounts as authorizations for expenditures during that quarter. The lag between departmental operations and the exercise of allotment control in the Comptroller's office is frequently so large as to make this

control of questionable value. During a quarter the Personnel Division apparently pays no attention to the allotments for personal services; the same may be said of the Purchasing Division with respect to the allotments for supplies and materials. In the course of a fiscal year whatever is saved or held back by the allotment procedure in one category of a department's expenditures is usually transferred to another and spent. Incidentally, these transfers make up the bulk of the transactions coming before the Finance Advisory Committee. By the end of the biennium the departments will have frequently used up all of their appropriations and will have incurred obligations which require deficiency or "additional" appropriations. Recently these deficiencies have run into considerable sums for the biennium, something like $5,000,000 from the general fund and $15,000,000 from the highway and other special funds.

There should be a new approach to budgetary control, one which would place the responsibility for the allocation of appropriations squarely upon the operating departments and agencies. Such responsibility should then be enforced by the central accounting and management units through frequent and prompt reports from the departments and agencies on the status of commitments against their appropriations and the progress made in their work program.

New Accounting System Needed

1. Any attempt to patch up the present accounting system of the state government would hardly be a profitable undertaking. The system, as it now exists, is a piecemeal affair, not properly related in its various parts and not designed to meet the needs either of management or of operating departments. It works through a combination of the most diverse methods and the greatest assortmentof mechanical equipment that one is likely to find anywhere. Under the burden of increasing services and demands, it does not produce satisfactory financial controls, and it does not turn out prompt and reliable accounting reports. The wonder is that it continues to work at all. Incidentally, the housing facilities for the central accounts in the Capitol building are wretched. They consist of fenced-off hallways, attic cubbyholes and fire-trap spaces, with poor lighting and ventilation.

A new accounting system should be designed from top to bottom, with the proper regard for the adaptation and utilization of machines. The central accounts should be located in satisfactory office space.

2. The new system should provide for general accounts and control operated largely on a reporting basis, and located in a central unit, such as that suggested above. It should also provide for departmental and institutional accounts, including cost accounts. All elements of the system should be so related as to set up proper budgetary and accounting controls, and to lend themselves readily to postauditing. Accounting reports should be devised and scheduled so as to supply adequate information at all times for both departmental operation and top management.

3. When the new system has been designed and installed, there should be a manual of accounting procedure on a loose-leaf basis, so that it can be easily kept up to date. Such a manual is necessary to instruct those who operate the system and to keep the system on a uniform basis.

4. The general financial reports should be redesigned to follow the program budget and new appropriation structure. They should present, in addition to the customary accounting statements, information on the broad fiscal policies and programs of the state government. The essential accounting statements of these reports should be certified to by the Auditors of Public Accounts.

III. SUMMARY OF ACTION NEEDED TO EFFECT SUGGESTED CHANGES

A. Constitutional Changes:

1. Remove Comptroller from the constitution; distribute his non-fiscal functions to other administrative units, and place his fiscal functions under a general accounting and control unit, making them statutory.

2. Remove the Treasurer from the constitution; make the treasury functions statutory and place them under a treasury unit in the administration.

3. Provide for annual sessions of the General Assembly -- the sessions in the even-numbered years to be short and limited to the budget.

4. Provide for reduction as well as elimination of appropriation items under the Governor's veto power.

B. Statutory Changes:

1. Abolish the Department of Finance and Control and the Finance Advisory Committee.

2. Abolish the Tax Department, as now constituted; relocate and regroup its functions.

3. Establish an integrated finance organization containing revenue administration (now mostly in the Tax Department), treasury functions (now Treasurer's office), and central accounting and control (fiscal functions of the Comptroller).

4. Set up budgeting on a program basis in the top policy and management sphere of the administration under the Governor. Pass along all budget matters concerned with day to day operations to a budget or finance officer in each of the major departments.

5. Bring the appropriation structure in line with program budgeting and provide for a new approach to the budget.

6. Provide for central accounting and reporting properly related to departmental budgeting, accounting, and costing.

7. Abolish the Teachers' Retirement Board and the State Employees' Retirement Commission. Consolidate the administration of the Retirement Systems and place it under the treasury unit.

8. Set up a system of self-insurance for the state government, including fire, liability, fidelity, and other forms of insurance.

9. Re-allign the functions and responsibilities of the Auditors of Public Accounts.

CHART I
PRESENT FINANCIAL ORGANIZATION

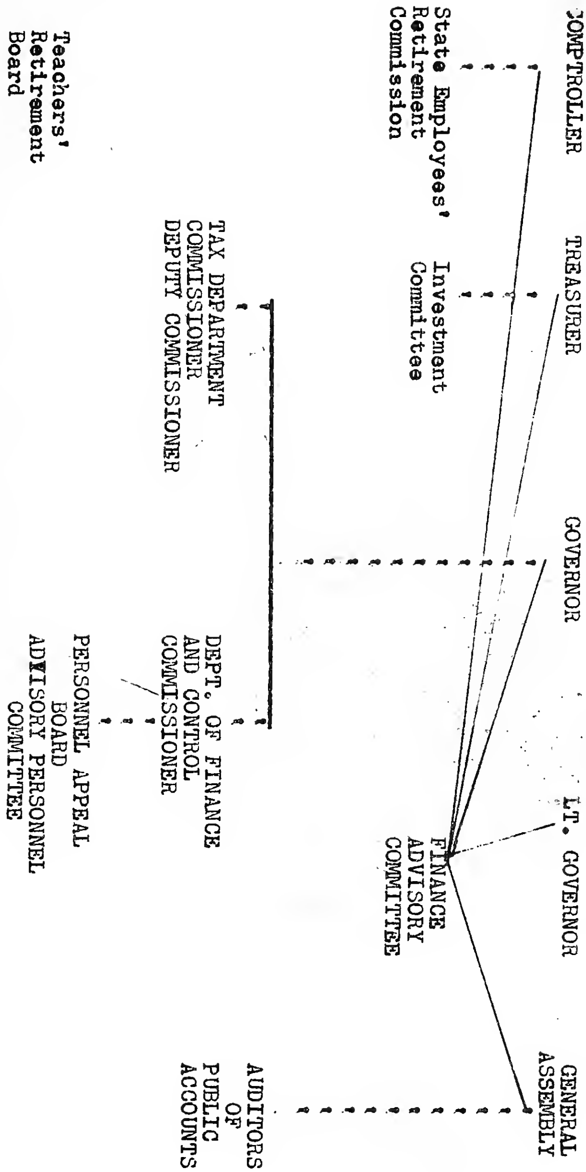

CHART II
SUGGESTED FINANCIAL ORGANIZATION